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B R I E F

T O

THE ONTARIO COMMITTEE ON TAXATION

PREPARED BY

ONTARIO PROPERTY OWNERS ASSOCIATION,

and

PROPERTY OWNERS ASSOCIATION OF METROPOLITAN TORONTO.

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INTRODUCTION:

The Ontario Property Owners Association, in conjunction with the Property Owners Association of Metropolitan Toronto, wish to respond to your invitation to tender a brief on taxation. We are both affiliated with the Canadian Federation of Property Owners Associations. A Joint Committee of the three organizations recently prepared and presented a brief to the Royal Commission on Taxation and, since a majority of the information contained in it is also pertinent to provincial taxes, we are pleased to enclose twelve copies of it and to refer specifically to the following sections :-

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In addition to matters listed above in the brief to the Royal Commission, we desire to amplify some of them which have a more profound effect in the provincial-municipal area.

EDUCATION :/

EDUCATION :

The cost of education is the largest single item adversely affecting property today and is unfairly assessed against owners. It still comprises the largest proportion of the average man's taxes as compared to any other expense he must pay for. Our Associations have pressed the Ontario Government for over twenty years to furnish relief for this problem. Starting with a one-mill subsidy and later with much more substantial grants towards municipal education costs, we realize that much progress has already been made, and that the province is now bearing about half of the total cost of primary education generally.

Assistance, however, is given in inverse ratio to the amount of industrial and business assessment available in various areas, so that it follows that in the outlying areas education costs are borne one hundred per cent. by the province, but in larger cities such as Toronto, Windsor, Hamilton, etc. the property owners still bear more than eighty per cent. of these costs, often amounting to forty per cent. of the total tax bill.

1963 education costs are about double those of the early 1950's so it is obvious that owners of industrial, commercial or residential properties today, although paying only fifty to eighty per cent. of the cost of education in various areas are, nevertheless, paying a much larger cash sum for education than they did previous to provincial assistance. Even when these larger cash sums are discounted to allow for inflation etc. they are still out of proportion. Education costs paid today by the realty tax-payer are a larger percentage of total taxes than they were ten or fifteen years ago.

Thus we have the anomaly that property owners, particularly those in the larger centres, are worse off tax wise now with provincial assistance, than they were before without it. Higher costs, extravagant school boards and inflationary effects account for some of those higher school expenditures. More children going to school to an older age account for more. Higher costs of more specialized courses also account for some but all of these things together do not explain away the lack of apparent benefit that the money granted/

granted by the province should have shown, along with capital assistance from the Federal Government.

In private business, when results are less than satisfactory, management consultants immediately look into staff functions to see that duties and responsibilities match up with ability and authority. No one can effectively be held responsible for something they have no authority to deal with. School trustees are in this position, elected to provide adequate education for the children of the community but with no adequate authority to raise the funds required or to be directly responsible to the taxpayers for the way in which it is spent. The friction generated by this unworkable set-up not only causes utmost frustration to trustees and taxpayers alike but also has recently been the cause of various law-suits between boards of education and town or city councils, all at the taxpayers expense.

We would urge the Government of Ontario to enact such legislation as is nevessary or desirable to separate the school boards from interference of councils and from realty taxes as a source of the funds they are to spend, and that municipalities and other school districts be provided with authority to collect another tax that will fall equally on all citizens with respect to their earning power, irrespective of the ownership of property and that the funds so raised be used exclusively for educational purposes under the control of the local area school trustees. This should eliminate the necessity of the present system of school grants.

WELFARE :

Many of the remarks made above with respect to education apply equally to welfare. Where those administering the funds are not responsible for raising them many abuses soon develop. Like the education costs, these are charged to the realty taxpayer and then partly refunded from provincial grants. Unlike education, however, there is no real way of measuring the results so that BOTH municipal and provincial tax money is wasted on a large scale. Many small towns which have set up welfare supervisors to see that money is properly and effectively spent on deserving cases have had their efforts rewarded by the removal of undeserving cases who simply packed up and /

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and moved to larger centres "where they would be treated properly".

The property owners suggest that welfare should be financed directly by the province and that the chain of responsibility in the distribution of such financial assistance would finally rest with the Provincial Government. This would leave the programme under the control of the people through their members of parliament and should eliminate all grants for this purpose to municipalities or other levels of authority.

CONCLUSION :

The Property Owners Associations have always maintained that the various levels and departments of government should have their activities fully covered by law and that each level be fully responsible for carrying out its lawful activities without overlapping and without grants or handouts from or to other levels of government. Any other system is not only a waste of taxpayers' money, but results in lack of control of government activities by the citizens, i.e. a departure from democracy into the realm of dictatorship.

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This brief is respectfully submitted to the Ontario Committee on Taxation by a Joint Committee of -

The Ontario Property Owners Association and the

Property Owners Association of Metropolitan Toronto.

71 Bloor Street West,
Toronto 5, Ontario.

October 1963.

B R I E F

T O

ROYAL COMMISSION ON TAXATION

PREPARED BY

CANADIAN FEDERATION OF PROPERTY OWNERS ASSOCIATIONS,

ONTARIO PROPERTY OWNERS ASSOCIATION,

PROPERTY OWNERS ASSOCIATION OF METROPOLITAN TORONTO,

PRESENTED AT

H E A R I N G S I N

CALGARY, ALBERTA,

August 21st. 1963.

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I N D E X

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INTRODUCTION:

This Brief is tendered by a Joint Committee of the Canadian Federation of Property Owners Associations and the Ontario Property Owners Association along with their affiliate the Property Owners Association of Metropolitan Toronto. The latter is a non-profit incorporated group operating in the sole interest of property owners of all kinds, i.e. industrial, commercial, home and apartment owners, etc. It has been continually active ever since its formation twenty-eight years ago. The Ontario Property Owners Association was formed twentysix years ago to embrace various local property associations in Ontario cities and towns. The Canadian Federation of Property Owners Associations was incorporated in 1946 to represent both provincial and local associations from coast to coast. Its first task was to carry a Rent De-control Programme into the Supreme Court of Canada, wherein the outmoded war-time controls were abolished.

HISTORY:

Various resolutions, briefs and delegations have been presented to the Government by the Federation over the years. One of the most relevant to the subject herein discussed was an audience granted by the Prime Minister on November 14th 1957 to a delegation headed by Mr. R. M. Willes Chitty, Q.C., on the subject of Redistribution of Tax Fields. Many of the difficulties outlined at that time are still besetting the taxpayer to-day.

One of the most important of these is the competition and overlapping between the Federal and Provincial Governments in to-day's tax field. Although the Federal tax powers in theory are presumably unlimited in practice, it has been understood they were to be restricted to indirect taxation and for non-provincial purposes, so that the provinces (of which the municipalities are a part) will have their normal fields left open. At the time of our 1957 submission it was clear that the "gentlemen's agreement" on such a working basis was breaking down with disastrous results.

At that time (1957) pressure on provincial treasuries had forced a renewed search for fresh tax sources, resulting in an invasion into the field /

HISTORY (cont'd):

field of indirect taxation. This was accomplished by pure invention, devices that enabled the provinces by ingenuity in the mode of imposition of such taxes to have them assume the form, if not the substance, of direct taxation.

So, with the Federal Government no longer restricting itself to indirect taxes and the provinces creating statutory devices to compete, the taxpayer has been exposed to double and triple taxation on whole lists of items of which gasoline, income and sales taxes are examples.

TAX SYSTEM MUST HAVE SOUND BASE:

Fundamentally no system is sound wherein one level of government collects the revenue and hands part of it to another to disburse. This principle applies even when the governments at various levels have similar political aims; but failure to apply this principle when the various governments involved in the distribution have opposing views on fiscal and welfare matters, etc. could create sufficient friction as to nullify the benefits of Confederation, or even threaten its continuation. At the time of our 1957 submission we were assured that wheels were being set in motion to solve these problems. Dominion-Provincial conferences in the Fall of 1960 finally gave the provinces a better break, but the faulty policies and principles still remain. It thus took three years to get partial relief and three years for the unsound practices to tighten things up worse than ever.

OVERLAPPING PURPOSES:

There is more competition for the taxpayer's dollar and more overlapping and duplication of tax fields than at any time in Canadian history. Not only is the same money taxed twice but in many cases it is extracted by at least two levels of government for the same purpose. The Federal Government has invaded the field of subsidized housing, air and water pollution remedial planning and financing whereas the provincial taxes support trade commissions in foreign countries. The policies of these various commissions are often at variance between one level of government and another so that the taxpayer foots the bill for both levels which, at best, are a duplication and, at worst may nullify each other's objectives.

So /

OVERLAPPING PURPOSES (cont'd)

So the problem is no longer one of just how to raise taxes or what groups should pay the bulk of various types of them. The real problem is determining what government is entitled to raise taxes for specific purposes and how the voting taxpayer is going to control this. There are strong forces in our midst who thrive on this lack of control, those who desire a spendthrift economy, more inflation, more welfare, etc. and who do not care how it is achieved or who pays. This group do not expect the taxpayer to get either value for his money, nor have a say in the desirability of the objects of the spending.

We cannot have our cake and eat it too. Taxes are such an important part of to-day's economy, influencing so many free enterprise decisions that they must be applied with care and spent on definite objectives. Both the direct objectives and the decisions forced on enterprise must be such as to expand trade, provide employment and prevent waste. Canada can no longer afford the drain of unwise tax collections with its detrimental effect on our world competitive position.

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B R I E F TO :

ROYAL COMMISSION ON TAXATION - 1963.

A Joint Committee of these Property Owners Associations with the names of their respective principal officers :

The Canadian Federation of Property Owners Associations -

Mr. Irvine Graham, Calgary, ... Vice-President,

Mr. W. Howard Coulter, B.A.Sc., Toronto, Vice-President,

The Ontario Property Owners Association -

Mr. R.M. Willes Chitty, Q.C., Toronto, President,

Mr. A.K. Kingsmill, Toronto, ... Director,

The Property Owners Association of Metropolitan Toronto -

Mr. C.R. Purcell, A.F.B., Toronto, President,

Mr. A.J. Wilson, Q.C., Toronto, ... Legislation Chairman,

respectfully submit to the Members of the Royal Commission on Taxation the following specific fields in which our present tax methods and laws are either unfair or tend to promote conditions under which our economy is adversely affected, thus reducing possible future levels of living standards of all our citizens. In so doing they also jeopardize fundamental concepts pertaining to the Right of Property that normally differentiates a democracy from a totalitarian state. These are as follows :-

1. RESTORE INCENTIVE:

All types of tax that can kill incentive either personal, corporate, in business or at home, should be eliminated from our tax structure as a matter of general principle and this should be done promptly so as to prevent further deterioration in our economy.

2. SUCCESSION DUTIES:

(a) The present Succession Duty Act should be changed so as to insure that a business established by a Canadian, with Canadian capital may be maintained by his heirs for generations rather than be forced to wind up or be taken over by foreign interests.

(b) /

2. Succession Duties (cont'd)

(b) Combination of succession duties and income taxes now taxes the same money four times for the year previous to death of taxpayer. This occurs at the most difficult time in the affairs of the deceased. The four taxes are Federal and Provincial Death Duties and Federal and Provincial Income Taxes. Although the Income Taxes payable by an estate are deductible from valuations for death duties, the increase in value due to the deceased's last year of earnings is taxed four times although compounding the tax is avoided by the exemption clause mentioned. However, the escalator type tax rates that apply simultaneously to death duties and income tax have a devastating impact on even a moderate estate of a deceased taxpayer with substantial earnings in his final year. Although the Federal Death Duties payable are reduced by allowances for Provincial Duties, they fall far short of covering the duties imposed by the more industrialized provinces. The high end of the escalated scale should be pared down and Federal-Provincial tax fields ironed out. Arrangements should be made for more time to pay death duties, probably by instalments and with due allowance for the income tax that must be paid first.

(c) Separate taxes on man and wife effectively rob the survivor of a substantial part of a life-time mutual struggle for security in middle life or old age as the case may be. In addition, if the deceased was the owner of a business venture his spouse may have difficulties enough trying to carry it on due to the sudden reduction in family man-power and talent without having the added burden of paying a premature tax which, of course, is always payable in CASH. Added to this is the problem of false valuations dealt with below.

Whatever a married couple can put by between them should remain untaxed until they both are deceased. It may be conceded, however, that if the survivor remarries a reduced tax be collected on the remnant of the first deceased's estate still unspent. Of course, gifts by Will to other than spouse would be taxed as usual.

(d) /

2. Succession Duties (cont'd)

(d) In many cases to-day the operation of present death duties and income tax laws act as practically straight governmental confiscation of business and property. Those whom death has taken without warning, probably in early middle life, have not had the opportunity nor the knowledge of how to partially safeguard themselves and their endeavours. Unless devices such as incorporation of business or personal affairs, tricky insurance arrangements, Wills direct to second generation, life interest reservations, etc. etc. are resorted to, the operation of the law is in itself quite unfair. The great majority of people have neither the skill nor the foresight to protect themselves in the limited ways available. The payment of duties in CASH on unreal valuations adds to the previous enumerated difficulties. The attendant circumstances with regard to an estate i.e. its liquidity, number and character of its beneficiaries, would have an effect on true market value, as would joint interests etc. Many enterprises operated by an owner-manager or part owner are worth two or three times more with the owner alive than dead. The heirs in such cases have to pay tax on two hundred to three hundred per cent of the actual value received. If a family or a widow is involved this is, as mentioned above, nothing but unadulterated confiscation.

All valuations for duties should reflect cash to the vendor, i.e. the heirs or the estate; valuations at the time of death should be discarded as these are based on the taxpayer having been alive up to that moment. Realistic valuations based on the fact that the taxpayer is now dead should be substituted. In this respect the Government cannot lose since the taxes may not be paid in full for a year or more there is ample time before a final clearance is given to ascertain what actual value the deceased's holdings have been to the successors, if there was misrepresentation. Shares listed on the open market can be valued more fairly than others, but even they are subject to wide variations. Minority holdings in specialty or family businesses may be worthless to other than the original holders whereas majority holdings /

2. Succession Duties (cont'd)

(d) (cont'd) holdings are usually considered more valuable, they often prove so only when there is a battle on for control and may hold a very low value indeed when a skilled owner-manager has passed on. Day to day market values are a very sensitive barometer and those applicable on the day of a shareholder's demise could easily be double or more what the market would bring when a large block of shares have had to be dumped upon it.

Of course these variations are common knowledge to taxpayers and government administrators alike, but, despite this knowledge, there has been no evidence until the present Royal Commission was set up that anyone seriously wished to correct these conditions. Death duties have been considered mainly as a source of revenue under a set of rigid rules that determined how much duty was payable without regard for consequences rather than as a means of intelligently handing down the administration of property and business from one generation to the next. The very change of name from Succession to Death Duties and the elimination of preferential rates for next-of-kin further illustrates the new attitude that threatens. It would seem as if the State were determined to destroy all wealth building devices regardless of the fact that under the democratic free enterprise system this is the only way of providing new business activity and more employment for ever-increasing population.

3. CLARIFICATION OF CAPITAL GAIN:

At the present time there is great uncertainty and confusion as to whether the Government will interpret the profits from an individual transaction as being income or as being capital gain. The effect of this is to discourage investment.

Capital gains should be clarified and an early stop put to making net worth assessments serve to illegally tax capital gains.

Canadian tax regulations also treat a great number of items as income that are not income at all. Profit from the sale of property is one example. Assets used for income purposes over many years may finally be sold /

CLARIFICATION OF CAPITAL GAIN (cont'd)

sold, perhaps, by a taxpayer who has passed middle age. The Minister of Taxation may rule the profit as taxable (or the taxpayer may win a court case that only part of the profit is taxable if he is fortunate) as income for the year in which the asset was sold. The asset may have accumulated value over twenty years but becomes suddenly taxable as money earned in one year despite the high tax bracket involved.

In many cases tax on the whole profit may be avoided and the amount limited to the original undepreciated value of the property or asset in place of the actual selling price, but there is no guarantee of this as the Act is very ambiguous and open to various interpretations according to the intent of the taxpayer in making the purchase or sale. At one time it was assumed that stock market and real estate gains were tax-free unless a taxpayer were engaged officially in these businesses as his chief source of livelihood; but recent tax rulings have plainly indicated that "intent" even on a casual one-time deal can attract tax.

Parliament has not made many of these rules, or voiced an opinion on the real change of policy affecting tax collection this last few years. The shift is entirely a matter of what, for lack of a better expression, may be called "court drift" coupled with too much power in the hands of the Minister of Taxation. One unfair court ruling becomes a precedent for another one, or perhaps it would be more accurate to say that one unfortunate court ruling, due to the existence of an unfair and ambiguous set of laws, becomes the precedent for many more.

When laws are submitted to Parliament they have presumably already been drafted by experts and the members listen to the desired effects as explained by officials and vote accordingly. It is now clear that this procedure does not provide the ordinary citizen and taxpayer with the protection that he should expect to receive in this enlightened age.

4. ILLUSORY VALUES:

In many cases the taxed asset has not increased in real value at all, having actually depreciated but has an 'apparent' increase in value due entirely to inflation over the years. ALTHOUGH THE GOVERNMENT is responsible for most of the conditions permitting the depreciation of the dollar over the years, the taxpayer/

ILLUSORY VALUES (cont'd)

taxpayer receives no allowance for this, but must pay in full, i.e. he must pay the same tax as he would have done had he received real cash income during the year equal to the inflated effect.

The above is equal to Federal confiscation of taxpayers' property and assets through vicious side-effects of present income tax law.

In other cases, such as the sale of older apartment buildings, the sale results in the recapture of depreciation written off over the years and so tax savings over a score of years may be payable suddenly in one year, The sad tale of those caught in this squeeze has spread so far in recent years that very few owners of rental units are now brave enough to take the depreciation allowances they are entitled to.

5. DOUBLE TAXATION:

(a) Mortgaged Homes:

The lack of proper exemptions not only imposes real estate tax and income tax on the same money but produces other unfair results as shown by the following example :-

Mortgage interest anomaly: If "A" owns his home outright and "B" with the same net worth and income purchases a similar home with a substantial mortgage on it, leaving money invested, say, in bonds equal in value to the mortgage, then "B" pays several hundred dollars more income tax than "A" as he cannot cancel the bond interest received against the mortgage interest paid, neither "A" nor "B" can get any exemption for the municipal taxes they both pay.

To encourage home ownership the Government should consider allowing as income exemptions the interest portion of mortgage payments and the municipal taxes paid by homeowners without imposing any retaliatory tax. Many a small business has been started on funds raised by a mortgage on the family home. A generation or two ago the impact of tax considerations was not serious enough to distort business decisions, but this is no longer the case. If a small business man trying to raise funds pledges any other asset for a loan, except his home and its furnishings, he can charge the interest paid against the income from the enterprise so financed, his home is often the largest

of /

DOUBLE TAXATION (cont'd)

Mortgage Interest Anomaly (cont'd)

of the assets that he can pledge, but he must carefully avoid it under penalty of double taxation.

The importance of this angle lies in the fact that all big businesses had small beginnings. If the Government creates an atmosphere favourable for the formation and growth of small business, as pointed out by the Canadian Chamber of Commerce over the years, then there would never need to be any worry about big business.

(b) Miscellaneous:

In the United States, for instance, double or multiple taxation cannot take place. A citizen of the U.S.A. can get credit on his income tax for every cent of other taxes paid - on meals, cigarets, municipal taxes, hospital taxes, home mortgage interest, etc. It may involve keeping a lot of stubs, but it is his right to do so if he wishes. Failure to build this principle into Canadian law not only produces unfair results, but permits taxes to exceed one hundred per cent with no recourse open to the taxpayer.

6. HARDSHIP FROM PROGRESSIVE RATES ON INCOME:

(a) Families:

Misleading assumptions may be obtained by a cursory look at Canadian tax forms which give the impression we are getting as good a tax break here as in other industrialized countries when in reality we are not. U.S. families, for example, have separate tax forms for man and wife and may allocate their combined income on them so that neither one has to pay in an unnecessarily high bracket. In Canada, however, if the husband's taxable income were $12,000 and the wife earned less than $1,000 and thus untaxed, they would pay $2,870. If they were permitted, as across the line, to allocate $6,000 taxable income to each form, the tax would be $1,050 each or $2,100 in all, a saving of $770.

To add insult to injury, the ill-conceived Section 21, subsection (1) so aggressively pursues its "pound of flesh" that if a man gives money or property to his wife (or to a woman who later becomes his wife) then all income derived from the investment or use of said gift shall automatically /

HARDSHIP FROM PROGRESSIVE RATES ON INCOME:(cont'd)

(a) Families (cont'd)

automatically be lumped into the husband's income for tax purposes and for life, denying both exemptions or lower brackets that would ordinarily be deemed available in the wife's tax form. If the original gift were substantial, it would, of course, have also been subject to gift tax as well.

Citizens' rights are jeopardized by such concepts. One family whose parents receive $12,000 should not pay a different tax than another just because the proportion of the total received by each of the parents happens to differ, or because one man made a gift at some time to his spouse and the other one did not.

Not only does the Canadian concept above mentioned discourage the proper sharing of this world's goods between husband and wife, but it also tends to promote juvenile delinquency through the preferential tax treatment of families where the mother works full time because her tax bracket is less than if the father were to exert himself to earn more instead.

(b) Business:

The previous paragraphs deal mainly with the low and middle range of progressive rates, whereas what follows applies more to the middle and upper brackets. In every society the majority will fall into the lower and middle brackets but the few in the higher brackets are the ones capable of forming the medium and larger businesses of to-morrow. When fifty to eighty per cent of the income earned by this group is syphoned off by ONE TAX alone (income) and with the impact of multiple taxes mentioned in other sections of this brief, it does not make sense in an underdeveloped country like Canada to stifle capital formation in this way. The United States who is much further developed and whose tax laws are not as severe as ours, has, nevertheless, found expansion to be stifled and taken steps accordingly.

7. UNEMPLOYMENT AND LIVING STANDARDS:

Pressure on the Federal Government has been mounting sharply since the campaign preceding last June's elections to give Canadian initiative a chance /

UNEMPLOYMENT AND LIVING STANDARDS: (cont'd)

chance to show what it can do to place Canada back in its rightful place in world trade, to use our education, resources and abilities to increase employment and improve the standard of living of all citizens.

The Canadian income tax structure has been singled out as possibly being the main culprit (but far from the only one) in handicapping our economy. Those who favour the welfare state and the maintenance of our high tax collections have insisted Canada's taxes are no worse than those of the U.K. or the U.S.A., but this opinion is not shared by those who are in business or by those who must pay the bulk of our various taxes. (Please refer to separate section on tax comparisons).

High taxes and high wage levels are practically the only causes of Canada's drop from a keenly competitive position in the markets of the world during the last generation and, to a great extent, the sales tax on comsumer goods and the tax on labour's income have generated the steam in the wage-cost spiral. Corporation and personal income taxes are by no means a negligible contributor to the increased overhead of doing business in Canada during recent years. These combined adverse factors spell unemployment and lower living standards for Canadians.

The importance of the general factors above and in previous portions of this brief to the property owner and realty taxpayer lies in the fact that the greatest single threat to profitable or efficient ownership of either productive or non-productive property is unemployment. Unemployed persons cannot earn overhead on the tools of production, extracted and paid for out of scarce local capital due to tax laws handicapping capital formation (dealt with elsewhere). Likewise unemployed cannot meet mortgage payments or pay rentals regularly, and they cannot pay their grocery and clothing bills etc. thus jeopardizing the meeting of payments on other people's property as well as their own. Lastly, they become a burden on other taxpayers instead of themselves being substantial contributors to the general taxation picture.

The high tax levels of to-day automatically affect pecuniary financial matters and are no longer a matter of pure fiscal policy. The day is long past due when we strike a budget and set a tax rate to match it. The

Government /

UNEMPLOYMENT AND LIVING STANDARDS: (cont'd)

Government must also make a study, or listen to others who have, of the effect of tax collection on enterprise, profits, employment, competitive world status, incentive, capital formation, etc. Failure to take ALL of these factors into consideration BEFORE budgets and tax rates are set up will only accentuate our present difficulties.

Very vigorous steps should be taken by the Government to see that measures are enacted that reflect the wishes of the people. Just and fair taxes should be implemented that will promote development and help to dissolve the ever growing unemployment that otherwise will persist. These steps should be undertaken with the specific purpose of providing :-

(a) More investment capital.

(b) Greater incentives for investment of Canadian generated funds and correspondingly less need of foreign funds.

(c) Greater incentive to earn more income.

To accomplish the above purposes the Government should give consideration to implementing either -

(a) a flat rate income tax, or

(b) a much simplified and greatly reduced progressive rate system if an abrupt change is considered too disturbing.

8. INFLATION:

President Truman once said that a little inflation was a desirable thing. The previous Roosevelt administration believed that quite a bit more than a little was still desirable. The more spendthrift planks there are in a government platform the more lenient will be their views on inflation. Property owners, however, believe in a "pay-as-you-go" policy on taxes and are by nature against inflation for the following reasons:

(a) Inflation robs the "haves" so that it may be spent by the "have nots". This destroys initiative, reduces employment and discourages or prevents capital formation and use of it.

(b) Inflation causes wage cost spirals and labour discontent.

(c) Inflation causes unstable pricing, makes escalator clauses necessary on contracts, including public works contracts, thus encouraging irresponsibility and waste of taxpayers' money.

(d) Inflation /

INFLATION: (cont'd)

(d) Inflation causes false values for tax purposes (see Illusory Values, Section 3 under Capital Gain)

(e) Inflationary policies may be followed more or less with impunity by self-sufficient countries, but with disastrous results by those dependent on world trade for their standards. In this respect we must follow British policy rather than that of the U.S.A.

(f) Inflation reduces the value of previous years' savings; in an industrial economy this reduces the value of residual amounts available for capital formation. In a country like Canada we need the full cumulative effect of all amounts available for capital formation in order to avoid becoming the financial slaves of foreign countries who have more realistic tax laws on capital, and/or more capital.

9. IRREGULAR INCOMES:

Persons working on commissions, receiving prize money (as their means of livelihood) or in types of business such as show business where large amounts may be received one year and practically nothing the next, undergo great hardships under present tax laws unless they incorporate themselves. Such persons whether incorporated or not should be able to average their incomes over three to five years for income tax purposes. A flat rate scale in place of the present steep progressive income rate scale would help these people to some extent, but, for those who earned considerably below the statutory exemptions in certain years, the averaging method would be fair.

10. WELFARE AND EDUCATION TAXES:

Property owners, through these affiliated associations, have never sought to avoid their full tax responsibilities. When items of no benefit to property are charged against it resulting in means being sought to eliminate such, it is not because owners are not mindful of their general responsibilities as citizens of the country, rather, it is an attempt to make it clear that owners pay as much or more of all the other types of taxes that non-owners pay PLUS those specifically applied to real estate.

At our combined annual meeting last year during the "Symposium of Opinions" two of the participants in this panel discussion programme, the Municipal Affairs Minister of Ontario and the Mayor of Toronto brought out the/

WELFARE AND EDUCATION TAXES: (cont'd)

the point that if all welfare and education costs were removed from city taxes and borne directly by higher levels, then NO grants for any other purpose would be required in order to maintain present mill rates on property and business. This was a startling point to some present and later had to be confirmed.

Such a simplification would put these costs exactly where they belong and permit no hedging by elected representatives as to which level was responsible for these items in the budget and the manner in which it was spent. Expenditures of school boards and welfare expenditures of councils are property owners biggest headache at the present time.

In the larger urban centres property owners still bear the brunt (75 to 80 per cent) of school board disbursements.

We would submit under this section that home owners be entitled to an additional exemption on income tax forms equal to that portion of property tax paid by them for education and welfare in their communities.

// CANADA - U.S. COMPARISONS:

(a) Canadians Taxed up to 40 per cent heavier:

As a result of many conditions outlined in this Brief we have lost to foreign control at least seventy per cent of Canadian industry and to foreign ownership nearly sixty per cent. Less than a decade ago both of these figures were less than fifty per cent. Such statistics prove that the fiscal and monetary policies in existence during the last eight or ten years have not only failed to correct such conditions, but have instead been the main causes of them.

For those looking for someone to blame, Canadian initiative, Canadian conservatism, lack of enterprise, lack of stamina against competition etc. have been among the targets. No one wants to face up to reality. Canadian qualities for doing business are as good as any in the world, but they have to be given a chance.

Tax comparisons shown in the December 22nd issue of the Financial Post between U.S. and Canadian citizens owning property indicate that the Canadian pays eight to seventeen per cent more in various tax groups. Adding some of the special risks enumerated in this Brief, which were not allowed /

CANADA - U.S. COMPARISONS: (cont'd)

(a) Canadians taxed up to 40% heavier: (cont'd)

allowed for in the comparisons mentioned, such as full exemptions and lower brackets of spouse not allowable here, fear of claiming depreciation (due to tax on capital recapture), etc, coupled with the fact that the Canadian dollar buys 30% less in consumer goods than its U.S. counterpart, brings us face to face with the unpalatable fact that we are penalized about 40% more, tax-wise, on a living standard base rather than a dollar basis, than our cousins to the South.

Note: Correction to the "living standard base" decreases the effectiveness of various exemptions by 30% and requires the comparison of the progressive tax rates on Canadian incomes that are 100/70 or 43% more than their U.S. counterparts.

(b) Cannot ignore Productivity:

Despite the fact that Canadian productivity per worker remains at only 60% of that pertaining to the United States, both labour and government have tried to pretend otherwise. Since 1959 the wage-productivity curves have remained parallel in the United States. In Canada the productivity curve fell away from the wage curve during 1960 and 1961 and had just returned to its 1959 relationship at the close of 1962. So the Canadian relationship of productivity and wages compared to those in the U.S. are unchanged from 1959 also.

Labour believes the best way to close the gap between living standards here and across the line is to demand parity, or as close to it as possible, in the matter of wages and hours; in steel and other industries they made these demands even when the Canadian dollar was worth 15% more compared to the United States dollar than it is at present. To be consistent perhaps they should ask for 15% more than parity now, or, to compensate for the 30% decrease in the purchasing power of our dollar, they should use this percentage instead?

The Government, on the other hand, has tried to tax us as if our standards /

CANADA - U.S. COMPARISONS (cont'd)

(b) Cannot ignore Productivity (cont'd)

standards and productivity were equal to the United States and by means of social and welfare measures seek to compensate from taxes for the shortcomings of our economy.

Both labour and government concepts of enforcing a standard either at the bargaining table or by decree are foolish and futile. The wages and taxes that result from these concepts make our cost of living and cost of production higher than they otherwise would be. And in addition render us non-competitive in world markets, unable to raise capital for expansion or maintenance of our own enterprise so that we must eventually become the financial slaves of foreign controlled business.

These policies do not lead to higher standards for our people, nor support our right of ownership of either productive or non-productive possessions. Enterprise and democracy cannot persist in a financial climate that does not permit private ownership to persist.

Fiscal policies must be based on retention of ownership and the abandoning by the Federal Government, or other levels, of any taxes that are confiscatory.

Taxes are not merely just a means of raising money for the government to spend, nor can a young country like Canada stand comparison with a large and nearly self-sufficient one like the United States or an older one such as Britain. Because wrong comparisons have been made, we find ourselves in a ridiculous situation, i.e. the prices of our consumer goods are a way out of line with income. Fuel, food and clothing should be lower priced in Canada than across the line because our productivity per man is lower. In other countries like Italy and Japan, particularly a few years ago, their lower standards were reflected in lower prices for the essentials of living. But because our industry and labour are both largely under foreign control we are probably the only self-governed country in the world whose lower productivity is not matched with a proportional lower cost economy. Instead of budgeting our money to meet our need, we foolishly strive to keep up with our rich neighbours.

12. 1963 TAX REVISIONS:

Reduction of Sales Tax Exemptions Retrogressive. It is too short notice to comment effectively on Finance Minister Gordon's 1963 Budget, especially as some items are still in a state of clarification as this is being written. In general, however, it appears to be a budget that will increase the cost of living, particularly the cost of new housing. It would also appear that it will increase factory overhead by imposing eleven per cent sales tax on the tools of production, thus reducing our competitive position abroad.

The stimulation of industry, especially secondary industry, is urgently required to provide additional employment. The taxing of tools and equipment, already financed with difficulty is definitely a retrogressive step. The Government instead should have continued to encourage building of all kinds along with investment in increased productive capacity.

The budget would appear to contain the elements of another round on the inflation spiral at a time when we can ill afford it.

The extension of Ministerial powers of discretion is very unfortunate. All laws requiring such discretion should be cancelled and the rights of any Minister to have recourse to such powers should forever be written out of Canadian Law. Arrangement of a taxpayer's affairs for minimum tax impact is his right and should not be viewed as "evasion".

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This Brief is respectfully tendered to the Royal Commission on Taxation by the Joint Committee formed for this purpose on behalf of the following affiliated groups :-

The Canadian Federation of Property Owners Associations :-

Mr. Irvine Graham, Calgary,	...	Vice-President
Mr. W. Howard Coulter, B.A.Sc.,		" "

The Ontario Property Owners Association :-

Mr. R.M. Willes Chitty, Q.C.,		President.
Mr. A.K. Kingsmill	...	Director.

The Property Owners Associations of Metropolitan Toronto :-

Mr. C.R. Purcell, A.F.B.,	...	President.
Mr. A.J. Wilson, Q.C.,	...	Legislation Chairman.

In addition all material compiled into this document has been submitted to, and approved by, the twentyseven man Board of Directors of the Metropolitan Toronto Association.

W. Howard Coulter

W. Howard Coulter,
Vice-President,

The Canadian Federation of Property Owners Associations, and

Secretary of the Joint Committee.

S U M M A R Y.

1. Responsible action from elected representatives can only occur after we possess clarified tax fields with properly allocated purposes.

2. Canada cannot become "efficient" or competitive in world markets until the voter is restored to the driver's seat with a clear view of the road. This will result in the elected representatives having a clear mandate and a proper conception of what is expected of them.

3. Tax load in proportion to our state of development and need for new capital is one of the most unfavourable among the world's industrial free nations. Those who argue that this is not so do not represent either the views of the taxpayers nor those of responsible industry.

4. Taxing is becoming a fine art, and is no longer a method of raising money for various levels of government to spend. Irresponsible tax policies must be brought to an end. Such policies should, in this modern age, be geared to ability to pay without impoverishment of living standards or production facilities, or a forced sale of assets to foreigners.

5. Unemployment remains the number one threat to the profitable use of either productive or non-productive property, and thus menaces the "Right of Property" or Ownership which is inseparable from the democratic concepts of free men.

6. Employment in a non-communist country depends on a favourable political climate for "capital formation" for both the continued health of existing enterprise and the formation of new business. Legislation of a confiscatory nature not only hinders new capital from being used, but also nullifies the further benefits from capital already raised in the past.

7. All laws should be clear cut and readily understandable. There should be no room for the use of a "Minister's Discretion".

8. /

S U M M A R Y (cont'd)

8. Relief should be given for all double or multiple tax effects and those seeking such relief should not be classed as EVADERS, but viewed as examples of the existence of faulty law which itself must be corrected.

9. Government must vacate activities that provide unfair competition to free enterprise or to beneficial ownership of property or equipment, Any other course is to destroy the forces whereby a democracy can exist, leaving communism as the only alternative.

10. State capital is related to communism. Use of N. H. A. and similar funds are past the point where they fill a need and up to the point where they start to cause interference and losses to private capital are as much a threat to our economy as the take-over of our industry by foreign capital. Either way, precious Canadian-generated capital would be destroyed and the incentive to provide more would be eliminated.

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